

ALL-EMPLOYEE MEETING

9/27/06

As we get ready to start the new fiscal year, I felt this is a good time to provide you with an update. I plan to meet with you in this forum at least once every quarter in the future.

Safety & Security

As you know, since June 1 there have been a number of issues and events at the Laboratory that have been of real concern: a series of reportable incidents in the first six weeks, a very serious hoisting & rigging injury, and three serious, near-miss electrical safety incidents within 10 days.

In all cases, we followed an approach that we will use consistently, which is to take prompt and appropriate action. We also will emphasize the personal responsibility and accountability that we each have for our own safety and that of our coworkers; get help from first-line supervisors on the most effective approaches and execution; and reach back to our parent company resources as appropriate.

I want to thank you--each of you--for your efforts in making improvements! So far, NNSA is showing confidence in us. This was demonstrated when they relied on our investigation of the hoisting and rigging injury instead of constituting a DOE Type-B investigation. [Early data](#) show that the trends in some traditional metrics are positive. For example, there have been significant improvements in the accident and lost-workday rates, and they are approaching DOE-wide averages.

In security, looking at the [most severe reportable security incidents](#) there also is improvement, especially if we realize that one of the incidents was beyond our control.

Because of your diligence and focus, we are on the right path. This is just one example of the change we are all experiencing--change that has been hard.

Change brings challenges, but it also provides opportunity. We still face many challenges, so there must be a lot of opportunity out there of which we can take advantage.

Accomplishments

Now let me move on to some of the exciting accomplishments by the Laboratory over the last few months:

- We've delivered the first production unit in the B61 life extension project.
- We've submitted the design package for the Reliable Replacement Warhead.
- We conducted the very successful Unicorn subcritical experiment at the Nevada Test Site.
- The Cibola Flight Experiment satellite is in the final stages of preparation for launch.
- We've begun working with IBM on the Roadrunner supercomputer, which will be the fastest computer in the world when fully built later this decade.
- We recently dedicated the Center for Integrated Nanotechnologies, a science window to the future.

In the business and operations area:

- The Lab's Enterprise Project is on track to be completed by year end.
- The Operational Efficiency Project has been completed.
- The Fix-It Team and the Barrier Removal Program continue to help rid the Lab of work impediments.

We've met the 90-day commitments made during transition:

- Laboratory sitewide cleanup
- Barrier removal process
- TA-21 closure
- Procurement improvement

In the first week of September--for the first time ever--the two science labs, Los Alamos and Lawrence Livermore, jointly reviewed the status of the NEP [nuclear explosive package] for the entire stockpile. This was an explicit part of our proposal. He and I spent a day in which we were able to get answers to all our questions from the appropriate system managers. It was a very productive session. Livermore Director George Miller and I now have a more complete understanding of the stockpile and the synergisms that come from that. I also was impressed by how forthcoming each system team was--another step in moving toward a truly national stockpile.

Another highlight from last week: the Mellon Foundation awarded two grants for more than \$1 million in support of e-science at the Research Library. Coming through LANS facilitated this first-ever accomplishment for the Lab. Although foundations typically can't fund the Laboratory directly, LANS was able to facilitate this first ever foundation grant. I hope to see other examples of this in the future.

Budget

One of the significant challenges we face is the budget. This is one of the most personally difficult issues that I have dealt with as a lab director because of its impact on people. People are always the heart and soul of an institution, especially one that is so rich in tradition like Los Alamos.

The Lab's overall budget is expected to be relatively flat from last year to this year, with some decreases in the operating budget, due at least to inflation. Adding to the budget uncertainty is the fact that we won't know for sure for a while, as I expect there will be a continuing budget resolution from Congress. And this could put more stress on the budget early in the year, as DOE headquarters will be conservative--a situation that could last for some months.

At the same time, as I have said before, we are facing increased costs from employee compensation and benefits, gross receipts taxes, and the management fee. This could total about \$175 million. In my July 21 memo to employees, I committed that we intend to manage with the current level of LANS staffing and with only selective hiring during the year and to minimize the impacts to our customers by keeping current overhead rates stable.

To advise me on the path forward, John Mitchell, deputy laboratory director, led a team of associate directors from all parts of the Lab, with help from the Chief Financial Officer organization, in reviewing the impacts of a 10 percent reduction in all the indirect budgets across the Lab to absorb these increased costs. The exception to this is LDRD [Laboratory-Directed Research and Development], which will see a very slight increase.

The team looked at this issue in some detail through extensive and multiple discussions with each of the associate directors, who presented his or her approach to meeting this target budget. The team then developed several options.

Based on their work, I believe we can meet the goals I set out: absorb the extra costs with the current LANS staffing, stable LDRD, and stable rates. I reiterate that there will *not* be a RIF [reduction in force], nor is one being planned for the future.

This will be hard, and there is significant uncertainty around how well we can do this given the direct budgets and the continuing resolution that we expect. Hence, I have decided to start the year allocating indirect budgets based on the current rates and hold leaders accountable for meeting those budgets. I also have decided that we will start the year collecting at a slightly higher rate, 37 percent instead of the current 36 percent, which gives us some cushion. I will review this approach again

as our direct budget and the continuing resolution are clarified and as we see how well we are doing.

There will be significant impacts for the contractor workforce. Our estimate is a reduction of about 350 individuals from the indirect side. And there could be roughly a couple hundred more from the direct side, as we work through the details of our budgets. These numbers are a result of adding up the estimates from impacts in each of our directorates, not a mandated number from the top down.

You may recall that our contractor workforce is of two types: one in which the Lab contracts out functions such as security, which are needed on a continuing basis with modest ebbs and flows, and a flexible, contractor workforce on a task, as-needed basis. We will ensure that this reduction is done fairly.

These decisions were made just yesterday, and so we have not worked out the details. But I feel it important to tell you what I know as soon as I know, running some risk that for some of you it could raise more questions than it answers.

The review team will continue meeting during the year to integrate the view of the direct and indirect budgets, to monitor our progress, and to explore additional sources of cost savings. While this puts a strain on the Laboratory--a reality no matter what decisions I make--it puts us on a path to increase significantly the efficiency and effectiveness of the Laboratory.

Focus Areas

To help you better understand where we are heading over the next months, I have put together areas of focus that the senior management team, and hence the Lab, will be working on. This is all based upon the strategies I outlined in my talks during the transition.

For the first months, we have focused on safety and security performance, budget, Board of Governors oversight, the Contractor Assurance System, and the performance evaluation plan.

In the coming months, we will focus on delivering our commitments in the mission area (Nuclear Weapons, Threat Reduction and Environment), building integration across the complex establishing transformation of the nuclear weapons enterprise through an RRW program as the path forward for the country, and building our threat reduction portfolio through strengthening selected relationships.

In Science, Technology & Engineering, we will focus on continuing outstanding science while building our long-term future. This means naming a permanent

principle associate director for ST&E in the next few months, delivering on Roadrunner, addressing our grand ST&E challenges, and planning the future major experimental facility for the Laboratory.

In Operations & Business we will continue our strong focus on safety and security, and on our improvements in procurement. We also will evaluate the pay-for-performance system and the job-classification structure and plan any changes. We also will plan and begin execution of the Laboratory's footprint reduction.

We in management will keep these initiatives going while building credibility with all of you--something that will take time, action, and especially continued communications by all of us with all of you.

We are on the right track for the future. As I meet with people across the Lab, I sense real pride in the Laboratory, a desire to get on with the future, as well as some continued skepticism about the new contractor team. We have all accomplished a lot and made positive change, but with many challenges to come. These are challenges that also provide us opportunity. With all of you--the outstanding people of this Laboratory--and the great traditions of accomplishment here, we *can* make the future happen.